

# **CITY OF CARPINTERIA**

Audit Report

## **SPECIAL GAS TAX STREET IMPROVEMENT FUND**

*July 1, 2015, through June 30, 2016*



**BETTY T. YEE**  
California State Controller

June 2018



**BETTY T. YEE**  
California State Controller

June 26, 2018

Dave Durflinger, City Manager  
City of Carpinteria  
5775 Carpinteria Avenue  
Carpinteria, CA 93013

Dear Mr. Durflinger:

The State Controller's Office audited the City of Carpinteria's Special Gas Tax Street Improvement Fund for the period of July 1, 2015, through June 30, 2016.

Our audit found instances of non-compliance. The city understated the fund balance by \$7,466 as of June 30, 2016, because it charged the fund \$7,466 in ineligible expenditures. We also identified two deficiencies in internal controls that are insignificant to the audit objectives, but warrant the attention of management. These deficiencies are described in the Observations and Recommendations section of this report.

If you have any questions, please contact Efren Lose, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/rg

cc: Licette Maldonado, Administrative Services Director  
City of Carpinteria  
Fred Shaw, Mayor  
City of Carpinteria

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Carpinteria's Special Gas Tax Street Improvement Fund for the period of July 1, 2015, through June 30, 2016.

Our audit found instances of non-compliance. The city understated the fund balance by \$7,466 as of June 30, 2016, because it charged the fund \$7,466 in ineligible expenditures. We also identified two deficiencies in internal controls that are insignificant to the audit objectives, but warrant the attention of management. These deficiencies are described in the Observations and Recommendations section of this report.

## Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) in the Transportation Tax Fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from State taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

## Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code.

We audited the city's Special Gas Tax Street Improvement Fund for the period of July 1, 2015, through June 30, 2016.

To meet the objective, we:

- Gained a limited understanding of internal controls that would have an effect on the reliability of the accounting records of the Special Gas Tax Street Improvement Fund by interviewing key personnel, completing the internal control questionnaire, and reviewing the city's organization chart and accounting policies and procedures;
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing;
- Performed analytical procedures to determine and explain the existence of unusual or unexpected account balances;
- Verified the accuracy of the fund balances by performing a fund balance reconciliation for the period of July 1, 2008, through June 30, 2015, and by recalculating the trial balance for the period of July 1, 2015, through June 30, 2016;

- Verified whether the components of and changes to the fund balances were properly computed, described, classified, and disclosed by scheduling and analyzing the Special Gas Tax Street Improvement Fund account balances;
- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule for fiscal year (FY) 2015-16 to determine whether HUTA apportionments received by the city were completely accounted for;
- Analyzed the system used to allocate interest and determined whether the interest revenue allocated to the Special Gas Tax Street Improvement Fund was fair and equitable, by interviewing key personnel and recalculating all of the interest allocations for the audit period;
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures and protected from impairment; and
- Verified whether the expenditures incurred during the audit period were supported by proper documentation and eligible in accordance with the applicable criteria by testing all of the expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and judgmentally selecting samples of other transactions for the following categories (for the selected sample, errors found, if any, were not projected to the intended population):
  - Services and Supplies – We tested \$99,727 of \$188,173.
  - Labor – We tested \$11,682 of \$376,166.

We did not audit the city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the city accounted for and expended its Special Gas Tax Street Improvement Fund in accordance with the criteria. We considered the city's internal controls only to the extent necessary to plan the audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

<b>Conclusion</b>	Our audit found instances of non-compliance for the period of July 1, 2015, through June 30, 2016, as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$7,466 to the city's accounting records. We also identified two deficiencies in internal controls that are insignificant to the audit objectives, but warrant the attention of management. These deficiencies are described in the Observations and Recommendations section of this report.
<b>Follow-up on Prior Audit Findings</b>	Our prior audit report, for the period of July 1, 2007, through June 30, 2008, issued on April 30, 2010, disclosed no findings.
<b>Views of Responsible Officials</b>	We issued a draft audit report on January 12, 2018. Licette Maldonado, Administrative Services Director, responded by email on January 24, 2018, agreeing with the audit results.
<b>Restricted Use</b>	This report is solely for the information and use of the City of Carpinteria and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

June 26, 2018

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2015, through June 30, 2016**

	Special Gas Tax Street Improvement Fund <sup>1</sup>
Beginning fund balance per city	\$ 185,994
Revenues	<u>516,872</u>
Total funds available	702,866
Expenditures	<u>(564,339)</u>
Ending fund balance per city	<u>138,527</u>
SCO adjustments: <sup>2</sup>	
Finding 1—Ineligible storm water treatment costs	5,980
Finding 2—Ineligible track and trailer rental costs	<u>1,486</u>
Total SCO adjustments	<u>7,466</u>
Ending fund balance per audit	<u><u>\$ 145,993</u></u>

<sup>1</sup>The city receives apportionments from the State HUTA, pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments varies, but the money may be used for any street-related purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems. The city must deposit its HUTA apportionments in its Special Gas Tax Street Improvement Fund.

<sup>2</sup>See the Findings and Recommendations section.

# Findings and Recommendations

## **FINDING 1— Ineligible storm water treatment costs**

The city charged \$188,173 in services and supplies expenditures. We tested \$99,727 and determined that \$5,980 was for ineligible storm water treatment costs. The error occurred because the city did not have adequate procedures to ensure that expenditures charged to the Special Gas Tax Street Improvement Fund are for street-related activities.

Streets and Highways Code section 2101 states, in part:

...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for...  
(a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways....

### Recommendation

We recommend that the city:

- Reimburse the Special Gas Tax Street Improvement Fund \$5,980 for the ineligible storm water treatment costs; and
- Establish procedures to ensure that funds expended from the Special Gas Tax Street Improvement Fund are for costs specified in the Streets and Highways Code section 2101.

### City's Response

In an email response on January 24, 2018, the city stated that it “has reimbursed the Special Gas Tax Street Improvement Fund in the amount of \$5,980 for the ineligible storm water treatment costs,” and that it “will ensure that funds expended from the Special Gas Tax Street Improvement Fund are for costs specified in the Streets and Highways Code Section 2101.”

## **FINDING 2— Ineligible truck and trailer rental costs**

The city charged \$188,173 in services and supplies expenditures. We tested \$99,727 and determined that \$1,486 was for ineligible truck and trailer rental costs. The truck and trailer were rented to mobilize and demobilize concrete barriers at various streets for a city festival. City festivals do not involve street maintenance, construction, or reconstruction; therefore, the truck and trailer rental costs are ineligible. The error occurred because the city did not have adequate procedures to ensure that expenditures charged to the Special Gas Tax Street Improvement Fund are for street-related activities.

Streets and Highways Code section 2101 states, in part:

...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for...  
(a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways....

Recommendation

We recommend that the city:

- Reimburse the Special Gas Tax Street Improvement Fund \$1,486 for the ineligible truck and trailer rental costs; and
- Establish procedures to ensure that funds expended from the Special Gas Tax Street Improvement Fund are for costs specified in the Streets and Highways Code section 2101.

City's Response

In an email response on January 24, 2018, the city stated that it “has reimbursed the Special Gas Tax Street Improvement Fund in the amount of \$1,486 for the ineligible truck and trailer rental costs,” and that it “will ensure that funds expended from the Special Gas Tax Street Improvement Fund are for costs specified in the Streets and Highways Code Section 2101.”

# Observations and Recommendations

**OBSERVATION 1—  
Lack of an accounting  
policies and procedures  
manual**

Our audit procedures included reviewing the city’s accounting policies and procedures. During our review, we noted that the city did not have an accounting policies and procedural manual available to assist staff with daily office operations.

Per the Government Finance Officers Association (GFOA), a well-designed and properly maintained accounting policies and procedures manual enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. Undocumented and outdated policies and related internal controls result in unclear roles and responsibilities and lead to improper handling of transactions. An essential element of internal control is monitoring, which includes verification by management that policies and procedures are updated to adequately address new challenges identified by ongoing risk assessments.

Establishing formal policies would provide detailed guidance to employees, management, and the city council, and would help ensure process consistency and accountability during staff turnover.

Recommendation

We recommend that the city establish an accounting policies and procedures manual to ensure that staff members understand their duties and functions. The accounting policies and procedures should explain the design and purpose of procedures related to internal controls in order to increase employee understanding of and support for such controls.

The accounting policies and procedures manual should be readily available to all responsible employees. It should clearly state the authority and responsibility of all employees, especially regarding accounting transactions and safekeeping of assets and records.

City’s Response

In an email response on January 24, 2018, the city stated that it “will develop and establish accounting policies and procedures to clearly state the authority and responsibility of all employees.”

**OBSERVATION 2—  
Lack of a computer  
disaster policy**

During our audit fieldwork, we found that the city does not have written policies and procedures to minimize disruptions from computer failure following a disaster.

Per the GFOA, state and local governments have a duty to ensure that disruptions in the provision of essential services are minimized following a disaster. Furthermore, at a minimum, government policies and procedures for computer disaster recovery should do all of the following:

- Formally assign disaster-recovery coordinators for each agency or department to form a disaster-recovery team. The responsibility of each team member should be defined and a current list of team members and their telephone numbers should be maintained;
- Require the creation and preservation of back-up data. The city should also ensure the security of back-up data during transport and storage; and
- Make provisions for alternative processing of data following a disaster.

#### Recommendation

We recommend that the city develop formal written policies and procedures to both ensure that staff members are aware of the policies and procedures to follow and minimize disruptions from computer failure following a disaster.

#### City's Response

In an email response on January 24, 2018, the city stated that it “has a written Emergency Operations Plan (EOP) that addresses the planned response to extraordinary emergency situations associated with natural and manmade disasters in or affecting the City. The city will develop formal written policies and procedures that will ensure that the City staff are aware of the policies and procedures and to minimize disruptions from computer failure following a disaster.”

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